

**REPORT OF THE AUDIT OF THE
JOHNSON COUNTY
SHERIFF'S SETTLEMENT - 2011 TAXES**

**For The Period
April 16, 2011 Through April 16, 2012**



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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
JOHNSON COUNTY
SHERIFF'S SETTLEMENT - 2011 TAXES

For The Period
April 16, 2011 Through April 16, 2012

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2011 Taxes for the Johnson County Sheriff for the period April 16, 2011 through April 16, 2012. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$8,029,648 for the districts for 2011 taxes, retaining commissions of \$325,388 to operate the Sheriff's office. The Sheriff distributed taxes of \$7,702,956 to the districts for 2011 taxes. Taxes of \$602 are due to the districts from the Sheriff and refunds of \$602 are due to the Sheriff from the taxing districts.

Report Comment:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Roger T. Daniel, Johnson County Judge/Executive

Honorable Dwayne Price, Johnson County Sheriff

Members of the Johnson County Fiscal Court

Independent Auditor's Report

We have audited the Johnson County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012. This tax settlement is the responsibility of the Johnson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Johnson County Sheriff's taxes charged, credited, and paid for the period April 16, 2011 through April 16, 2012, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2012 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Roger T. Daniel, Johnson County Judge/Executive
Honorable Dwayne Price, Johnson County Sheriff
Members of the Johnson County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

December 5, 2012

JOHNSON COUNTY
 DWAYNE PRICE, SHERIFF
SHERIFF'S SETTLEMENT - 2011 TAXES

For The Period April 16, 2011 Through April 16, 2012

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 592,006	\$ 1,242,895	\$ 3,346,189	\$ 830,169
Tangible Personal Property	63,485	160,671	451,762	218,956
Fire Protection	2,585			
Increases Through Exonerations		23	1,724	
Franchise Taxes				
Current Year	99,456	228,040	466,965	
Prior Year	75,113	148,600	314,484	
Additional Billings	799	1,680	3,656	1,004
Unmined Coal - 2011 Taxes	8,467	15,475	35,037	11,874
Oil and Gas Property Taxes	7,403	13,530	30,634	10,381
Penalties	5,609	12,530	27,469	8,020
Adjusted to Sheriff's Receipt	(41)	210	(90)	(47)
Gross Chargeable to Sheriff	<u>854,882</u>	<u>1,823,654</u>	<u>4,677,830</u>	<u>1,080,357</u>
<u>Credits</u>				
Exonerations	4,747	11,448	28,326	6,664
Discounts	10,267	21,785	58,098	15,254
Delinquents:				
Real Estate	25,112	59,290	129,538	35,063
Tangible Personal Property	111	278	533	412
Franchise Taxes	<u>21</u>	<u>42</u>	<u>86</u>	
Total Credits	<u>40,258</u>	<u>92,843</u>	<u>216,581</u>	<u>57,393</u>
Taxes Collected	814,624	1,730,811	4,461,249	1,022,964
Less: Commissions *	<u>34,622</u>	<u>68,840</u>	<u>178,450</u>	<u>43,476</u>
Taxes Due	780,002	1,661,971	4,282,799	979,488
Taxes Paid	779,829	1,661,685	4,282,116	979,326
Refunds (Current and Prior Year)	<u>173</u>	<u>286</u>	<u>683</u>	<u>162</u>
Due Districts			**	
as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* And ** See Next Page.

The accompanying notes are an integral part of this financial statement.

JOHNSON COUNTY
DWAYNE PRICE, SHERIFF
SHERIFF'S SETTLEMENT - 2011 TAXES
For The Period April 16, 2011 Through April 16, 2012
(Continued)

* Commissions:

4.25% on	\$	3,423,172
4% on	\$	4,461,249
1% on	\$	145,227

** School Taxing Districts:

Common School	\$	(602)
Paintsville Independent School		<u>602</u>

Due District or

(Refund Due Sheriff)

\$	<u><u>0</u></u>
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JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT

April 16, 2012

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Johnson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT
April 16, 2012
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Johnson County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 16, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2011. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2012. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 2011 through April 16, 2012.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2011. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 23, 2012 through April 16, 2012.

Note 4. Interest Income

The Johnson County Sheriff earned \$308 as interest income on 2011 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Johnson County Sheriff collected \$44,365 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Roger T. Daniel, Johnson County Judge/Executive
Honorable Dwayne Price, Johnson County Sheriff
Members of the Johnson County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Johnson County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012, and have issued our report thereon dated December 5, 2012. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Johnson County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying comment and recommendation as item 2011-01 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Johnson County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Governmental Auditing Standards.

This report is intended solely for the information and use of management, the Johnson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

December 5, 2012

COMMENT AND RECOMMENDATION

JOHNSON COUNTY
DWAYNE PRICE, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 16, 2011 Through April 16, 2012

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

While reviewing the Sheriff's internal control procedures, we identified a lack of adequate segregation of duties over receipts and disbursements. These control deficiencies are present because one employee's duties include accepting tax payments, recording taxes paid, preparing the daily deposit, preparing monthly tax reports, preparing monthly tax disbursements, and co-signing monthly tax disbursements.

In order to achieve a proper segregation of duties, related activities should be assigned to different individuals. Since budget restrictions may limit the number of staff the Sheriff can hire, it may not be feasible to segregate accounting duties to different individuals. In this situation, the Sheriff should implement compensating controls to mitigate the effects of the lack of adequate segregation of duties. We recommend the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should frequently compare daily bank deposits to the daily tax reports. The Sheriff should investigate any variances. This review should be documented with the Sheriff's initials on the daily checkout sheet.
- The Sheriff should review the monthly tax reports and compare them to the checks written to the taxing districts. This should be documented with the Sheriff's initials on the monthly reports.
- The Sheriff should review the monthly bank reconciliation. The Sheriff should compare the amounts deposited on the bank statement to the receipts ledger. This should be documented with the Sheriff's initials on the bank reconciliation.

Sheriff's Response: No response.

